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Report Highlights:
Post revised 2002 production and export estimates to reflect new data obtained from trade sources, including record exports for beef and pork. The outlook for both beef and pork calls for continued expansion in 2003, but at moderate rates.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Economic Summary

In the past decade, Brazil has undertaken a number of economic reforms that dramatically reduced inflation and opened the economy to private sector investment. In 1994, Brazil initiated an economic stabilization program known as the Real Plan, which was highly successful in reducing longstanding inflation. The plan also inaugurated one of the world's largest privatization programs. However, when growth slowed, the economy's dependence on external financing and the government failure to control its finances, left the economy vulnerable to external shocks. In 1999, the government was forced to float and devalue the real. Since 1999 the government has been dedicated to fiscal discipline, highlighted by the passage in May 2000 of the Fiscal Discipline Law, which sets strict limits on government spending at the federal and sub-federal level. The government also initiated an inflation-targeting program as the basis of monetary policy, wherein the government sets a target and the Central Bank strives to keep inflation within a band around the target. The new government that took office in January 2003 has stated that it will maintain fiscal discipline, inflation targeting, and a floating exchange rate.

2002 was a difficult year for the economy, as investor confidence fell because of uncertainty surrounding the 2002 elections, volatile international financial markets and the weak global economy. This was on top of the economic turbulence experienced in 2001, when the Brazilian economy was buffeted by a domestic energy shortage, an economic crisis in Argentina, and the after effects of the September 11 terrorist attack. The exchange rate depreciated 52% in 2002, on top of a 19% decline in 2001. Inflation crept up to 12.5% in 2002, forcing the Central Bank to raise interest rates. Growth was modest, 1.5% in 2001 and perhaps a bit higher in 2002. With the depreciation, high interest rates and slow growth, the government's debt burden increased. With the weaker exchange rate, Brazil turned a trade deficit in 2000 to a small trade surplus in 2001 and $13 billion surplus in 2002. The surplus ameliorated the balance of payments pressure Brazil experienced because of a fall in international lending and slowdown in foreign direct investment, but the Central Bank had to draw on its international reserves in 2001 and 2002 to cover the financing gap. Brazil signed a $30 billion IMF program in August 2002.

In spite of these pressures, the economy avoided a serious crisis, in part because of the reforms adopted in the 1990s. The new government has affirmed that it intends to pursue stable economic policies and implement structural reforms. If the government is able to do so, the pressure on government finances, balance of payments, exchange rate and inflation should decline, and the economy would be in a position to grow more rapidly.

Commodity Outlook, Beef

Production

Beef production reached 7.2 million metric tons in 2002, an increase of five percent over the previous year. The most important factors contributing to this increase were: a) an 18 percent increase in beef exports; b) firm domestic demand for beef, as beef prices were competitive with alternative meats, such as chicken and pork; c) higher productivity of the herd, mostly in the center-west regions; and, c) remunerative prices paid to producers in 2002. Post revised the outlook for 2003 to reflect new estimates obtained from trade sources. Both production and exports are expected to increase this year, but at a more moderate rate.

Trade

Final export data for 2002 is not available yet, but trade sources indicated that total beef exports in 2002 reached 881,000 metric tons (CWE), an increase of 18 percent from the previous year. Exports were up due to the following factors: a) devaluation of the Brazilian currency by 53 percent in 2002; b) significant increase in processed beef exports, and, c) exports to new markets. In 2002, Brazil shipped beef to more than 80 markets compared to 48 markets two years ago.

Preliminary data indicates an average export price of US$840 per metric ton in 2002, a drop of 23 percent compared to the average price of US$1,033 per metric ton in 2001.

Post increased our previous estimate for beef exports in 2003 from 925,000 to 970,000 metric tons. The following factors will likely contribute to a 10 percent increase in beef exports in 2003:

a) An estimated average exchange rate between R$3.30 and R$3.60 in the first semester of 2003, which helps the Brazilian beef exporters to be highly competitive in the world market; b) the possibility of a higher Hilton beef quota for Brazil (15,000 metric tons, up from 5,000 metric tons); c) the possibility of increasing beef exports to markets, such as Russia and China; and, d) an increase of 100 percent in market promotion funds to R$10 million to promote the "Brazilian beef" brand in overseas markets.

Policy

Major policy goals of the Brazilian Government for 2003 related to beef are: a) eradication of Foot-and-Mouth Disease (FMD) in the livestock circuits of the North and Northeast in 2004 -- one year earlier than anticipated; b) implementation of the traceability program (SISBOV) for all beef exports; c) implementing additional programs in animal health to control tuberculosis and brucellosis; and, d) increase cooperation with other South American countries to control and eradicate FMD with donation of FMD vaccines to Bolivia and Paraguay.

Marketing

According to the Brazilian Beef Exporters Association (ABIEC), the market promotion program in cooperation with the Government Export Promotion Agency (APEX) will double its funds in 2003 to R$10 million (nearly US$3 million) to continue to promote the "Brazilian Beef" brand in export markets.

Commodity Outlook, Pork

Production

Pork production increased by a surprising rate of 15 percent in 2002 and reached 2.5 million metric tons, in response to exceptional performance of the export sector and firm domestic demand for processed pork products. However, the increase in production was followed by a period of high feed costs, because of higher corn prices, and relatively low producer prices. Although pork production continues to expand in the center-west regions of the country, most of the increase in pork production in 2002 originated from the three southern states of Brazil, where the largest pork packers and exporters are located. According to our trade sources, these states accounted for 60 percent of Brazil's pork production in 2002.

Post also revised the outlook for pork production in 2003. Pork production is expected to increase this year, but at moderate rates. However, pork producers also may cut production in 2003 if there is a drop in the second corn crop and if packers fail to meet their export goals.

Trade

Although final data is not yet available, our trade sources indicated that pork exports increased by 75 percent in 2002 to 454,000 metric tons, or 590,000 mt in carcass weight equivalent (CWE). This is an-all time record in exports, and results from two factors: a) a significant devaluation of the Brazilian currency last year of approximately 53 percent; and, b) significant increase in pork exports to Russia (363,394 metric tons, or 472,412 mt - CWE). The total export value increased by 34 percent to US$482 million, but the average export price was down by 25 percent to US$1,012 per metric ton.

Russia accounted for 80 percent of Brazil's pork exports in 2002. The high concentration of pork exports to Russia is a major concern to Brazilian producers. Russian officials have established an import quota for Brazil of 450,000 MT with a 15 percent import duty (beyond this volume, duties would increase to 80 percent). Also, Russian officials have not yet suspended their embargo of pork from the state of Santa Catarina imposed last year due to the outbreak of "Aujeszky" disease. According to trade sources, more than 80,000 animals have been killed due to this disease, which is prevalent in some counties of Santa Catarina. Brazilian officials are expecting a Russian Veterinarian Team to visit Brazil in February or March to investigate the situation in Santa Catarina. Brazilian pork exporters also expect to discuss the Russian meat import quota issue during the visit.

Hong Kong and Argentina were the two largest markets for Brazilian pork, despite reduced imports from Brazil in 2002. This has prompted Brazilian pork exporters to look for new markets, such as Japan, the European Union, China, and South Africa.

Policy

The swine sector (producers and packers) have requested from the Brazilian government the following policy initiatives to improve the "financial" situation of hog producers due to over production, lower prices, and higher feed costs: a) intervene as a moderator in the sector with the goal of adjusting supply and demand; b) control stocks and supply of corn, including suspension of corn exports in 2003; c) allocate more subsidized rural credit for hog producers to finance their production costs; d) increase funds to the animal health sector to maintain the current "sanitary" status as free of major diseases; e) negotiate with the Russian government to open the market for pork from Santa Catarina; f) allocate funds to support the industry market promotion efforts to increase the domestic consumption of fresh pork, since 80 percent of domestic consumption of pork in Brazil is made of processed products; and, g) to continue to support the market promotion program for pork in export markets.

PSD Tables

Beef PS&D Table

PSD Table						
Country	Brazil					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	32046	31860	33167	32240	34200	0
Beginning Stocks	0	0	0	0	0	0
Production	6895	6895	7136	7240	7385	7430
Intra EC Imports	0	0	0	0	0	0
Other Imports	44	44	80	70	80	70
TOTAL Imports	44	44	80	70	80	70
TOTAL SUPPLY	6939	6939	7216	7310	7465	7500
Intra EC Exports	0	0	0	0	0	0
Other Exports	748	748	838	881	925	970
TOTAL Exports	748	748	838	881	925	970
Human Dom. Consumption	6191	6191	6378	6429	6540	6530
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	6191	6191	6378	6429	6540	6530
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	6939	6939	7216	7310	7465	7500
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	100	47	110	83	80	100

Pork PS&D Table

PSD Table						
Country	Brazil					
Commodity	Meat, Swine				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	26475	26760	28060	28098	0	29081
Beginning Stocks	25	26	6	0	1	0
Production	2216	2230	2340	2565	0	2685
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	2241	2256	2346	2565	1	2685
Intra EC Exports	0	0	0	0	0	0
Other Exports	337	337	365	590	0	650
TOTAL Exports	337	337	365	590	0	650
Human Dom. Consumption	1898	1919	1980	1975	0	2035
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1898	1919	1980	1975	0	2035
Ending Stocks	6	0	1	0	0	0
TOTAL DISTRIBUTION	2241	2256	2346	2565	0	2685
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0